

**AUDIT OF THE
LEWIS COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2005

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Lewis County Fiscal Court Management's Discussion and Analysis June 30, 2005

The financial management of Lewis County, Kentucky offers readers of Lewis County's financial statements this narrative overview and analysis of the financial activities of Lewis County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Lewis County has net assets of \$ 2,346,864.00, for government activity funds, including current and capital assets, as of June 30, 2005
- Lewis County's total indebtedness at the close of fiscal year June 30, 2005 was \$ 1,913,570.45, all of which is long term debt (due after 1 year) and no short term debt (to be paid within 1 year). There were no new debt additions during the fiscal year, and debt reductions were \$ 228,748.01 for the fiscal year. The County also has outstanding debt in the amount of \$8,774,910.00 for the Justice Center. However, these payments will be made by the Administrative Office of the Courts, and are not reflected further in these financial statements.
- The county received various state grants during the fiscal year. Grants in the amount \$ 379,635.41, were received for various projects, including Litter Abatement, Dump Clean-up Reimbursement, Search & Rescue, Community Emergency Response Team, Homeland Security, Emergency Operations Payments and a 21st Century Grant for the Boys & Girls Club.

**Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

- During the fiscal year, the Lewis County Road Fund received FEMA reimbursements in the amount of \$44,691.44, for disasters from 2000 to 2003.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Lewis County's basic financial statements. Lewis County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Lewis County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Lewis County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Lewis County is improving or deteriorating.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services

Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)

provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Lewis County's governmental activities include general governmental, protection to persons and property, roads, general health and sanitation, and social services. The county has two business-type activity – the operation of a jail canteen, or which is not included on included on the M D & A nor financial statements and the Public Properties Corporation (AOC Justice Center), which is not included on any other schedule other than the Capital Assets Statement on the M D & A.

The government-wide financial statements include not only Lewis County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Lewis County has one such entity, the Lewis County Public Properties. It is known as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Lewis County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Lewis County can be divided into two broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Lewis County maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, and Jail Fund, all of which are considered major funds by the county.

Lewis County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided in this analysis for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Financial Analysis of the County's Funds.

As noted earlier, Lewis County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Governmental Funds Overview. The focus of Lewis County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County government funds was \$ 191,954.18.

The County has 3 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund.

1. The General Fund is the chief operating fund of Lewis County. At the end of June 30, 2005 fiscal year, the total fund balance of the General Fund was \$ 149,644.88. The county received \$567,308.25 in Insurance Premium Tax revenue, which accounts for approximately 36% of total general fund revenues. \$443,445.93 was received from real and personal property taxes, and accounts for approximately 38% of the county's general fund revenues. \$266,700.00 in Federal Grants which constituted 17%, State Grants in the amount of \$111,935.41 which was 7% and various other revenues constituting 12% of the General Fund Revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund has \$39,872.00 year-end. County Road Aid payments amounted to 56% of the revenues, transportation Cabinet Payments amounted to 27% and 17% of the revenues was from various other receipts.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2005 of \$2,437.30. The ending balance at each fiscal year remains relatively low due to the General Fund transfers being on a as need basis.

**Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column and the government-wide financial statements, but in more detail.

Lewis County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net capital assets of \$3,317.41 as of June 30, 2005, and a cash balance of \$4,176.34.

General Fund Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$75,000.00. Budget amendments were made to include 21st Century grant for Boys and Girls Club surplus revenues as opposed to projected collections.

Actual operating revenues were \$316,426.37 less than originally budgeted by the Fiscal Court, and actual operating expenses were \$662,159.83 less than originally budgeted. This variance is due to budgeted revenues for the Garrison Sewer Plant not being received but budgeted by the fiscal court.

Capital Assets and Debt Administration.

Capital Assets. Lewis County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$8,853,571.92 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

**Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

**Table 1
Lewis County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities	Business-Type Activities	Total
Infrastructure Assets	\$ 908,380	\$ 0	\$ 908,380
Land	312,900	100,000	412,900
Equipment	12,757	0	12,757
Bldgs. & Improvements	1,636,191	5,304,444	6,940,635
Vehicles & Heavy Equip	657,725	0	657,725
Total Net Capital Assets	\$ 3,527,953	5,404,444	\$8,932,397

Long-Term Debt. At the end of the 2005 fiscal year, Lewis County had total long-term debt outstanding of \$1,790,580.45. The amount of this debt due within the next year is \$199,566.10 and \$1,591,014.35 is due in subsequent years. Of this debt \$1,647,585.00 is for the Detention Center.

Short-Term Debt. The county has no short term debt at the end of the fiscal year.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations

**Lewis County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Requests for Information

This financial report is designed to provide a general overview of Lewis County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Lewis County Treasurer, 514 Second Street, Room 201, Vanceburg, Kentucky 41179

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Steve Applegate, Lewis County Judge/Executive
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Lewis County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lewis County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

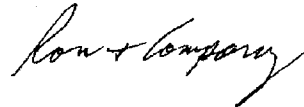
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of Lewis County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Steve Applegate, Lewis County Judge/Executive
Members of the Lewis County Fiscal Court
(Continued)

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2005 on our consideration of Lewis County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed-
July 28, 2005

LEWIS COUNTY OFFICIALS
Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Steve Applegate	County Judge/Executive
Milt Stanfield	Magistrate
Todd Ruckel	Magistrate
Keith Chapman	Magistrate

Other Elected Officials:

Clayton G. Lykins, Jr.	County Attorney
Tim Underwood	Jailer
Shirley A. Hinton	County Clerk
Kathy Hardy	Circuit Court Clerk
William Lewis	Sheriff
Betty F. Ripato	Property Valuation Administrator
Tony Gaydos	Coroner

Appointed Personnel:

Kathy Dillow	County Treasurer
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STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

LEWIS COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 704,747	\$ 4,137	\$ 708,884
Total Current Assets	<u>704,747</u>	<u>4,137</u>	<u>708,884</u>
Noncurrent Assets:			
Capital Assets-Net of Accumulated Depreciation			
Land	412,900		412,900
Buildings	6,940,636		6,940,636
Furniture and Equipment	12,757		12,757
Vehicles and Equipment	657,726		657,726
Infrastructure Assets-Net of Depreciation	<u>908,381</u>		<u>908,381</u>
Total Noncurrent Assets	<u>8,932,400</u>	<u>0</u>	<u>8,932,400</u>
Total Assets	<u>9,637,147</u>	<u>4,137</u>	<u>9,641,284</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	128,511		128,511
Revenue Bonds	<u>130,000</u>		<u>130,000</u>
Total Current Liabilities	<u>258,511</u>		<u>258,511</u>
Noncurrent Liabilities:			
Financing Obligations	1,244,535		1,244,535
Revenue Bonds	<u>5,220,000</u>		<u>5,220,000</u>
Total Noncurrent Liabilities	<u>6,464,535</u>		<u>6,464,535</u>
Total Liabilities	<u>6,723,046</u>	<u>0</u>	<u>6,723,046</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,209,354		2,209,354
Unrestricted	<u>704,747</u>	<u>4,137</u>	<u>708,884</u>
Total Net Assets	<u>\$ 2,914,101</u>	<u>\$ 4,137</u>	<u>\$ 2,918,238</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

LEWIS COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For the Year Ended June 30, 2005

Functions/Programs	Program Revenue Received			Net (Expenses) Revenues and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary Government:						
Governmental Activities:						
General Government	\$ 649,566	\$ 464,237	\$ 277,063	\$ 91,734		\$ 91,734
Protection to Persons and Property	743,631	409,794	125,014	(208,823)		(208,823)
General Health and Sanitation	218,804			(218,804)		(218,804)
Social Services	141,900			(141,900)		(141,900)
Recreation and Culture	162,188		150,000	(12,188)		(12,188)
Roads	1,009,748		1,449,704	439,956		439,956
Debt Service	398,186			(398,186)		(398,186)
Capital Projects	365			(365)		(365)
Administration	583,497			(583,497)		(583,497)
Total Government Activities	3,907,885	874,031	2,001,781	(1,032,073)		(1,032,073)
Business-type Activities:						
Jail Canteen Fund	60,642	57,087			(3,555)	(3,555)
Total Business-type Activities	60,642	57,087			(3,555)	(3,555)
Total Primary Government	3,968,527	931,118	2,001,781	(1,032,073)	(3,555)	(1,035,628)
General Revenues:						
Taxes:						
Real Property Taxes				443,445		443,445
Motor Vehicle Tax				80,529		80,529
Others Taxes				619,787		619,787
Excess Fees				23,775		23,775
Unrestricted Investment Earnings				20,545		20,545
Miscellaneous Revenue				182,113		182,113
Total General Revenues				1,370,194	0	1,370,194
Changes in Net Assets				338,121	(3,555)	334,566
Net Assets-Beginning				2,575,980	7,692	2,583,672
Net Assets-Ending				\$ 2,914,101	\$ 4,137	\$2,918,238

The accompanying notes are an
integral part of these financial statements.

BALANCE SHEET – GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

LEWIS COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road and Bridge Fund	Jail Fund	Public Properties Courthouse Corporation Fund	Total Governmental Funds
ASSETS					
Cash	<u>\$ 149,645</u>	<u>\$ 39,872</u>	<u>\$ 2,437</u>	<u>\$ 512,793</u>	<u>\$ 704,747</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	5,710	11,321	11,873		28,904
Unreserved	<u>143,935</u>	<u>28,551</u>	<u>(9,436)</u>	<u>512,793</u>	<u>675,843</u>
Total Fund Balances	<u>\$ 149,645</u>	<u>\$ 39,872</u>	<u>\$ 2,437</u>	<u>\$ 512,793</u>	<u>\$ 704,747</u>
Total Fund Balances					\$ 704,747
Amounts Reported for Governmental Activities in the Statement of Net Assets					
Are Different Because:					
Capital Assets Used in Governmental Activities Are Not Financial and					
Therefore Are Not Reported in the Funds					10,650,854
Accumulated Depreciation					(1,718,454)
Liabilities:					
Due Within One Year - Revenue Bond Principal Payments					(258,511)
Due in More Than One Year - Revenue Bond Principal Payments					<u>(6,464,535)</u>
Net Assets of Governmental Activities					<u>\$ 2,914,101</u>

STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

LEWIS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For the Year Ended June 30, 2005

	General Fund	Road And Bridge Fund	Jail Fund	Public Properties Courthouse Corporation Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,143,760	\$	\$	\$	\$ 1,143,760
Intergovernmental	504,256	1,449,704	437,810	434,209	2,825,979
Excess Fees	23,774				23,774
Charges for Services	5,640		19,203		24,843
Miscellaneous	182,413	3,118	20,952		206,483
Interest	6,164	971		14,032	21,167
Total Revenues	<u>1,866,007</u>	<u>1,453,793</u>	<u>477,965</u>	<u>448,241</u>	<u>4,246,006</u>
EXPENDITURES					
General Government	486,434			3,875	490,309
Protection to Persons and Property	36,469		644,546		681,015
General Health and Sanitation	215,320				215,320
Social Services	141,900				141,900
Recreation and Culture	162,188				162,188
Roads		1,495,801			1,495,801
Debt Service:					
Principal	97,900	52,983		125,000	275,883
Interest	74,763	4,973		318,450	398,186
Capital Projects	365				365
Administration	358,934	130,928	93,635		583,497
Total Expenditures	<u>1,574,273</u>	<u>1,684,685</u>	<u>738,181</u>	<u>447,325</u>	<u>4,444,464</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>291,734</u>	<u>(230,892)</u>	<u>(260,216)</u>	<u>916</u>	<u>(198,458)</u>
Other Financing Sources (Uses)					
Transfers From Other Funds			261,000		261,000
Transfers to Other Funds	(261,000)				(261,000)
Total Other Financing Sources (Uses)	<u>(261,000)</u>		<u>261,000</u>		
Net Change in Fund Balances	30,734	(230,892)	784	916	(198,458)
Fund Balances-Beginning	118,911	270,764	1,653	511,877	903,205
Fund Balances-Ending	<u>\$ 149,645</u>	<u>\$ 39,872</u>	<u>\$ 2,437</u>	<u>\$ 512,793</u>	<u>\$ 704,747</u>

The accompanying notes are an
integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

LEWIS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For the Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (198,458)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	606,337
Depreciation Expense	(345,641)

Lease principal payments are expended in the Governmental Funds as a use of current year financial resources

Lease principal payments	150,883
Revenue bond principal payments	<u>125,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 338,121</u></u>
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STATEMENT OF NET ASSETS – PROPRIETARY FUNDS – MODIFIED CASH BASIS

LEWIS COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activity Enterprise Fund
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 4,137
Total Current Assets	<u>4,137</u>
Total Assets	<u>4,137</u>
Net Assets	
Unrestricted	4,137
Total Net Assets	<u><u>\$ 4,137</u></u>

The accompanying notes are an
integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS – MODIFIED CASH BASIS

LEWIS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For the Year Ended June 30, 2005

Business-Type Activity -
Enterprise Fund

	Jail Canteen Fund
	<hr/>
Operating Revenue	
Canteen Receipts	\$ 57,087
Lease Income	
Total Operating Revenue	<hr/> 57,087 <hr/>
Operating Expenses	
Cost of Sales	(42,042)
Educational and Recreational	(10,600)
Salaries	(8,000)
Total Operating Expenses	<hr/> (60,642) <hr/>
Operating Income (Loss)	<hr/> (3,555) <hr/>
Nonoperating Revenue (Expenses)	<hr/> 0 <hr/>
Net Income (Loss) Before Transfers	
Change In Net Assets	(3,555)
Total Net Assets - Beginning	<hr/> 7,692 <hr/>
Total Net Assets- Ending	<hr/> \$ 4,137 <hr/> <hr/>

The accompanying notes are an
integral part of these financial statements.

STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS – MODIFIED CASH BASIS

**LEWIS COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND-MODIFIED CASH BASIS**

For the Year Ended June 30, 2005

Enterprise Fund

	Jail Canteen <u>Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 57,087
Claims Paid	<u>(60,642)</u>
Net Cash Used By Operating Activities	<u>(3,555)</u>
 Net Increase in (Decrease) in Cash and Cash Equivalents	 (3,555)
Cash and Cash Equivalents-July 1, 2004	<u>7,692</u>
 Cash and Cash Equivalents-June 30, 2005	 <u><u>\$ 4,137</u></u>

The accompanying notes are an
integral part of these financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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LEWIS COUNTY FISCAL COURT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lewis County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Based upon the criteria stated in GASB 14, management has included the Lewis County Public Properties Courthouse Corporation as part of the reporting entity.

Lewis County Public Properties Courthouse Corporation

The fiscal court appoints a voting majority of the Public Properties Courthouse Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Courthouse Corporation. Financial information for the Public Properties Courthouse Corporation is blended within Lewis County's financial statements.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Lewis County Constitutional Elected Officials Not Part of Lewis County

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lewis County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Jailer
- County Sheriff
- Property Valuation Administrator

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as does the proprietary fund statement. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with few exceptions. Property tax receivables, accounts payable, and compensated absences are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt-consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets- resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by laws through constitutional provisions or enabling legislation. 3) unrestricted net assets- those assets that do not meet the definition of restricted net assets or invested capital assets.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property taxes receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, county road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Courthouse Corporation Fund – The Public Properties Courthouse Corporation Fund accounts for the activities of the Public Properties Courthouse Corporation, a blended component unit of the county. The Public Properties Courthouse Corporation issues debt to build major facilities or additions. The Lewis County Public Properties Courthouse Corporation has entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (the “AOC”), in which the AOC wishes to use and sublease all or a portion of certain facilities owned or to be constructed by or on behalf of the County. This lease/sublease agreement expires every two years.

Special Revenues Funds:

The Road and Bridge Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Courthouse Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Fund

The proprietary fund is reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds’ principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county’s enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for enterprise fund include the cost of sales and services, and administrative expenses.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Fund (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

		Capitalization Threshold	Useful Life (Years)
Land Improvements		\$ 12,500	10-60
Buildings		25,000	10-75
Building Improvements		25,000	10-75
Machinery and Equipment		2,500	3-25
Vehicles		2,500	3-5
Infrastructure		25,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and capital leases are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Account Policies (Continued)
H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Courthouse Corporation Fund and the Jail Canteen Fund.

The State Local Finance Officer does not require the Public Properties Courthouse Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to this fund and these payments are made through direct payment of lease proceeds for the Administrative Office of the Courts.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the county’s deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county’s agent in the county’s name.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 412,900	\$ 0	\$ 0	\$ 412,900
Total Capital Assets Not Being Depreciated	412,900			412,900
Capital Assets Being Depreciated:				
Buildings	8,035,157			8,035,157
Furniture and Office Equipment	23,024			23,024
Vehicles and Equipment	1,051,945	136,949	(3,795)	1,185,099
Infrastructure	525,286	469,388		994,674
Capital Assets Being Depreciated	9,635,412	606,337	(3,795)	10,237,954
Less Accumulated Depreciation For:				
Building	(903,778)	(190,743)		(1,094,521)
Furniture and Office Equipment	(5,380)	(4,887)		(10,267)
Vehicles and Equipment	(449,184)	(92,239)	*14,050	(527,373)
Infrastructure	(28,521)	(57,772)		(86,293)
Total Accumulated Depreciation	(1,386,863)	(345,641)	14,050	(1,718,454)
Total Capital Assets Being Depreciated, Net	8,248,549	260,696	10,255	8,519,500
Government Activities Capital Assets, Net	\$ 8,661,449	\$ 260,696	\$ 10,255	\$ 8,932,400

*Includes adjustment of \$13,730 for prior year over statement of accumulated depreciation and decrease in current year accumulated depreciation of \$320 due to asset disposals.

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 159,257
Protection to Persons and Property	62,616
General Health and Sanitation	3,484
Roads, Including Depreciation of General Infrastructure Assets	120,284
Total Depreciation Expense – Governmental Activities	<u>\$ 345,641</u>

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Financing Obligations

The fiscal court entered into various financing obligations for road equipment to be used by the county road department. The balance of these obligations at June 30, 2005 was \$53,846.

The fiscal court entered into two financing obligations for industrial site development. The balance of these two obligations at June 30, 2005 was \$79,200.

In May 1998, the fiscal court entered into a financing obligation with the Kentucky Area Development District Financing Trust for the renovation of the County Detention Facility for \$1,550,000 at 5.23% average interest rate with a maturity date of November 20, 2018. The balance of this agreement at June 30, 2005 was \$1,240,000.

The assets acquired through financing obligations are as follows:

	<u>Governmental Activities</u>
Assets:	
Building – Detention Center	\$ 1,500,000
Land – Industrial Parks	235,000
Vehicles and Equipment	257,000
Less: Accumulated Depreciation	<u>(261,167)</u>
Total	<u>\$ 1,730,833</u>

The future minimum obligations and net present values of these minimum payments as of June 30, 2005 were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>
2006	\$ 198,566
2007	167,279
2008	144,488
2009	136,897
2010	126,165
2011 – 2015	634,065
2016 – 2019	<u>507,110</u>
Total Minimum Payments	\$ 1,914,570
Less: Amount Representing Interest	<u>541,524</u>
Present Value of Minimum Payments	<u>\$ 1,373,046</u>

LEWIS COUNTYS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt

Revenue Bonds

In February 2000, the Lewis County Public Properties Corporation issued \$5,820,000 in First Mortgage Revenue Bonds for the construction of the Lewis County Justice Center. On the same day the Lewis County Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

Lewis County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Public Properties Corporation and the county expect annual rentals for the use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2026, but the lease does not obligate the AOC to do so.

These bonds are scheduled to mature in March 2026; interest payments are due every six months starting September 2000, and principal payments are due annually beginning September 2001. At June 30, 2005, the principal balance outstanding on these bonds was \$5,475,000. Debt service requirements for the fiscal year ended June 30, 2006, and thereafter are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Interest	Principal
2006	\$ 312,200	\$ 130,000
2007	305,700	140,000
2008	298,560	145,000
2009	291,020	150,000
2010	283,070	160,000
2011 – 2015	1,273,130	945,000
2016 – 2020	976,150	1,240,000
2021 – 2025	553,880	1,655,000
2026	47,885	785,000
Totals	\$ 4,341,595	\$ 5,350,000

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Capital Leases	\$ 1,523,929	\$ 0	\$ 150,883	\$ 1,373,046	\$ 128,511
Revenue Bonds	5,475,000	0	125,000	5,350,000	130,000
Total Governmental Activities Long-Term Liabilities	<u>\$6,998,929</u>	<u>\$ 0</u>	<u>\$ 275,883</u>	<u>\$ 6,723,046</u>	<u>\$ 258,511</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspect of benefits for non-hazardous employees includes retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS

For The Year Ended June 30, 2005

LEWIS COUNTY
BUDGEARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis

For The Year Ended June 30, 2005

GENERAL FUND				
	<u>Budgeted Amounts</u>		Actual Amount, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,006,000	\$ 1,006,000	\$ 1,143,760	\$ 137,760
Intergovernmental Revenues	953,633	1,028,633	504,256	(524,377)
Excess Fees	19,000	19,000	23,774	4,774
Charges for Services	8,000	8,000	5,640	(2,360)
Miscellaneous	47,500	47,500	182,413	134,913
Interest	2,300	2,300	6,164	3,864
Total Revenues	2,036,433	2,111,433	1,866,007	(245,426)
EXPENDITURES				
General Government	515,697	545,183	486,434	58,749
Protection to Persons and Property	35,112	41,423	36,469	4,954
General Health and Sanitation	897,480	228,894	215,320	13,574
Social Services	9,000	143,700	141,900	1,800
Recreation and Culture	7,500	164,598	162,188	2,410
Debt Service:				
Principal	98,000	98,000	97,900	100
Interest	75,000	75,000	74,763	237
Capital Projects		365	365	
Administration	353,644	398,797	358,934	39,863
Total Expenditures	1,991,433	1,695,960	1,574,273	121,687
Excess (Deficiency) of Revenues Over Expenditures	45,000	415,473	291,734	(123,739)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(245,000)	(615,473)	(261,000)	354,473
Total Other Financing Sources and (Uses)	(245,000)	(615,473)	(261,000)	354,473
Net Changes in Fund Balances	(200,000)	(200,000)	30,734	230,734
Fund Balance-Beginning	200,000	200,000	118,911	(81,089)
Funding Balance-Ending	\$ -	\$ -	\$ 149,645	\$ 149,645

LEWIS COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 405,461	\$ 405,461	\$ 437,810	\$ 32,349
Charges for Services	17,000	17,000	19,203	2,203
Miscellaneous	10,650	10,650	20,952	10,302
Total Revenues	433,111	433,111	477,965	44,854
EXPENDITURES				
Protection to Person and Property	580,760	646,115	644,546	1,569
Administration	97,351	94,496	93,635	861
Total Expenditures	678,111	740,611	738,181	2,430
Excess (Deficiency) of Revenues Over Expenditures	(245,000)	(307,500)	(260,216)	47,284
OTHER FINANCING SOURCES (USES)				
Transfers In	245,000	307,500	261,000	(46,500)
Net Changes in Fund Balances	0	0	784	784
Fund Balances-Beginning	0	0	1,653	1,653
Fund Balance-Ending	\$ -	\$ -	\$ 2,437	\$ 2,437

LEWIS COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

ROAD AND BRIDGE FUND				
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$1,140,281	\$1,140,281	\$1,449,704	\$309,423
Miscellaneous	1,000	1,000	3,118	2,118
Interest	3,000	3,000	971	(2,029)
Total Revenues	1,144,281	1,144,281	1,453,793	309,512
EXPENDITURES				
Roads	1,295,141	1,592,725	1,495,801	96,924
Debt Service:				
Principal	53,500	54,403	52,983	1,420
Interest	4,000	4,000	4,973	(973)
Administration	141,640	169,085	130,928	38,157
Total Expenditures	1,494,281	1,820,213	1,684,685	135,528
Excess (Deficiency) of Revenues Over Expenses	(350,000)	(675,932)	(230,892)	445,040
Net Changes in Fund Balances	(350,000)	(675,932)	(230,892)	445,040
Fund Balances Beginning	350,000	350,000	270,764	(79,236)
Fund Balances-Ending	\$ -	\$ (325,932)	\$ 39,872	\$ 365,804

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

The Honorable Steve Applegate, Lewis County Judge/Executive
Members of the Lewis County Fiscal Court

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Lewis County, Kentucky as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 28, 2005. Lewis County's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lewis County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

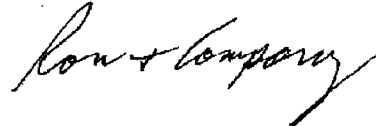
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lewis County's financial statements as of June 30, 2005, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards
(Continued)

This report is intended solely for the information and use of Lewis County Fiscal Court, management and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company PLLC

Audit fieldwork completed-
July 28, 2005